

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1A**  
**Accounting Strand**  
**Sample Paper**

8:30 am – 9:30 am (1 hour)

This paper must be answered in English

**GENERAL INSTRUCTIONS**

- (1) There are TWO sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
- (2) Answer ALL questions.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start EACH question (not part of a question) on a NEW page.
- (4) The Answer Sheet for Section A and the Answer Book for Section B must be handed in separately at the end of the examination.

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**INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)**

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the ‘Time is up’ announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words ‘END OF SECTION A’ after the last question.
- (3) All questions carry equal marks.
- (4) ANSWER ALL QUESTIONS. You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.
- (6) No marks will be deducted for wrong answers.

This sample paper aims to illustrate the revised rubrics, instructions and paper layout, effective from the 2025 examination. The questions are adapted from past papers as follows:

### Section A

Sample Paper	HKDSE		Topic	
	Year	Question		
1	2016	1	Business Environment	Same as Paper 1B
2	2015	1		
3	2018	7		
4	2016	15		
5	2016	17		
6	2017	6		
7	2017	1		
8	2016	28		
9	2016	4	Personal Financial Management	
10	2016	9		
11	2016	14		
12	2017	13		
13	2017	3		
14	2016	25		
15	2017	23		
16	2017	26		
17	2018	26	Basics of Management	
18	2016	3		
19	2015	3		
20	2016	20		
21	2016	10		
22	2016	22		
23	2016	24		
24	2017	14		

### Section B

Sample Paper	HKDSE		Topic	
	Year	Question		
1	2018	1	Business environment	Same as Paper 1B
2a	2016	2a	Personal Financial Management	
2b	2017	2		
3a	2017	3c	Basics of Management	
3b	2016	5c		

**SECTION A Choose the best answer for each question.**

**(48 marks)**

1. Which of the following is/are the characteristic(s) of multinational corporations located in Hong Kong?
- (1) Their operations also take place outside Hong Kong.
  - (2) They are listed on the stock exchange of Hong Kong.
  - (3) They have more than 100 employees.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
2. A limited partner \_\_\_\_\_.
- A. is a general partner
  - B. is not liable for the debts of a partnership
  - C. does not need to invest money into a partnership
  - D. does not take part in the management of a partnership
3. Ethical behaviour in business will \_\_\_\_\_.
- (1) enhance the public image of a business
  - (2) increase the operating costs of a business in the long run
  - (3) enable a business to be subject to a lower profits tax rate
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
4. Which of the following companies is/are socially responsible?
- (1) A power company which develops new technology to help reduce gas emissions.
  - (2) A printing company which accepts many orders from social welfare organisations.
  - (3) A trading company which encourages employees to participate in voluntary work to serve the community.
- A. (1) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
5. Which of the following is a benefit brought about by the “Closer Economic Partnership Arrangement” (CEPA) for the businesses in Hong Kong?
- A. Companies owned by Hong Kong residents are not taxed on the Mainland.
  - B. There is free flow of capital between Hong Kong and the Mainland.
  - C. Tariffs are not levied on goods originating in Hong Kong exported to the Mainland.
  - D. Hong Kong is allowed to enter the World Trade Organization as an independent economy.

6. Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?
- (1) Hong Kong is the largest trading partner of the Mainland.
  - (2) In terms of the value of goods, the Mainland is the largest re-export destination of Hong Kong.
  - (3) Many goods originating in Hong Kong exported to the Mainland are tariff-free.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
7. Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?
- (1) It settles trade disputes in the Asia-Pacific region.
  - (2) It promotes sustainable economic growth in the Asia-Pacific region.
  - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. A \_\_\_\_\_ is easier to set up and enjoys a relatively low tax rate in Hong Kong. All owners are liable for the business decisions of one another in this entity.
- A. partnership
  - B. sole proprietorship
  - C. private limited company
  - D. public limited company
9. Anna has just retired at the age 65 and has received a substantial amount from a provident fund. She plans to invest the money to get some returns but is not willing to take high risks. Which of the following financial instruments is the **least** suitable for her?
- A. term deposits
  - B. saving deposits
  - C. iBond
  - D. shares
10. A credit card user
- (1) can buy goods and services overseas with a credit card issued in Hong Kong.
  - (2) can settle the whole outstanding balance of the statement by the due date in order to avoid interest charges.
  - (3) can enjoy a lower interest rate to settle the overdue credit card balance than for a personal loan.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

11. A bank offers a saving plan which requires an initial deposit of \$100 000. The plan generates the following cash flows at the end of subsequent years:

	\$
Year 1	20 000
Year 2	35 000
Year 3	55 000

Given a discount rate of 5% p.a., what is the net present value of the saving plan?

- A. \$10 000  
B. \$9523.81  
C. \$4761.90  
D. - \$1695.28
12. If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?
- (1) Effective rate of return reflects the actual return on an investment.  
(2) Effective rate of return will be higher if the amount of the principal increases.  
(3) Effective rate of return will be higher if the frequency of compounding increases.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
13. Which of the following statements about the Hang Seng Index is **not** correct?
- A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.  
B. It measures the performance of the largest and most liquid companies listed in Hong Kong.  
C. It includes 50 stocks listed on the GEM.  
D. It serves as a benchmark of the general performance of the Hong Kong stock market.
14. Simon is a self-employed fashion designer. He
- (1) has the right not to enrol into an Mandatory Provident Fund (MPF) scheme.  
(2) has the right to make voluntary contributions to the MPF scheme.  
(3) has the right to withdraw his accrued benefits from the MPF scheme before reaching the age 65 if he migrates to another country.
- A. (1) only  
B. (2) only  
C. (3) only  
D. (2) and (3) only
15. Which of the following are the benefits for a borrower of maintaining a good personal credit record?
- (1) lower interest rate on personal loan  
(2) higher credit limit  
(3) better terms when opening a term deposit account
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

16. Which of the following will affect the share price of a listed company selling motorcars?

- (1) fuel price
- (2) interest rate
- (3) dividend policy of the company

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

17. A car retailer sets the following sales target for its new car model:

**‘50% of Hong Kong drivers will buy our new car model in 2019.’**

Which of the following criteria for setting good objectives is/are fulfilled in this sales target?

- (1) specific
- (2) measurable
- (3) attainable

- A. (2) only
- B. (3) only
- C. (1) and (2) only
- D. (1) and (3) only

18. In a company with departmentalisation by geographical location,

- A. departmental offices are set up in the regions which the department oversees.
- B. departmental managers are responsible for business operations in the regions which the department oversees.
- C. departmental outlets only sell goods produced in the regions which the department oversees.
- D. departmental staff is only recruited from the regions which the department oversees.

19. Susan is the supervisor of a group of fashion designers in a garment firm. She only gives broad directions to the designers, allowing them to complete the assigned tasks in their own ways.

Susan is adopting the \_\_\_\_\_ style of leadership.

- A. autocratic
- B. centralised
- C. laissez faire
- D. participative

20. Which of the following are the importance of small and medium enterprises to the local economy?

- (1) They provide materials and services to large businesses.
- (2) They provide unique products to satisfy the needs of the Hong Kong market.
- (3) They provide the major source of tax income for Hong Kong.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

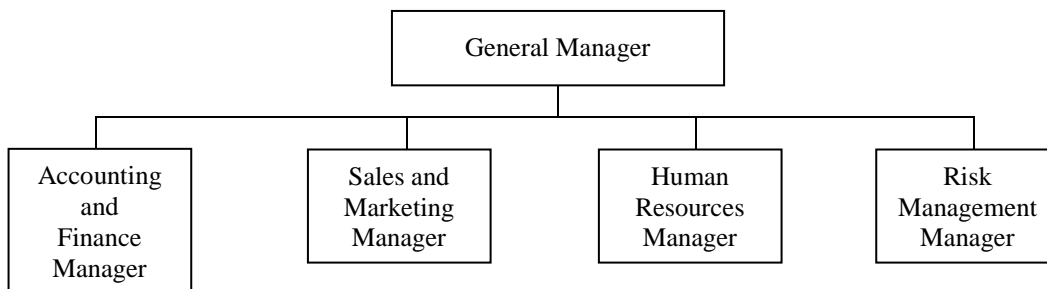
21. Which of the following statements about 'division of work' are correct?
- (1) It facilitates automation of production.
  - (2) It makes it easier for managers to supervise the production process.
  - (3) It makes it easier for workers to master the production process they are responsible for.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
22. Which of the following are the benefits of defining the goal of a project?
- (1) provide clear directions to employees
  - (2) help control the progress of work and monitor the performance of employees
  - (3) reduce employees' workload
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
23. Which of the following statements about 'unity of command' is correct?
- A. Each manager takes up one project only.
  - B. Each subordinate directly reports to one supervisor only.
  - C. All employees are working towards the same goals.
  - D. All employees receive the same instructions when assigned the same tasks.
24. Which of the following illustrate the importance of entrepreneurship in business development?
- (1) reduce business risks
  - (2) promote economic growth
  - (3) encourage innovation
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

**END OF SECTION A**

**SECTION B Answer ALL questions.**

**(24 marks)**

1. Nick Limited is a private limited company, manufacturing and selling electrical appliances locally. Facing international competition, the company is planning to set up an online store to sell worldwide. To lower costs and increase sales, the company is analysing the effects of globalisation in order to formulate new business strategies.
- (a) Explain one technological factor and one economic factor that Nick Limited should consider when planning to set up the online store. (4 marks)
- (b) Suggest two strategies to Nick Limited that may lower its production cost under globalisation. (4 marks)
2. (a) Explain how the share price of a property development company in Hong Kong changes in a booming local economy. (2 marks)
- (b) Mary has just retired and received her retirement fund. A financial planner advised her to invest the retirement fund in various financial instruments.
- (i) Explain two of Mary's financial needs after her retirement. (4 marks)
- (ii) As an investor, what responsibilities does Mary have? List any two. (2 marks)
3. John runs a retail business selling electronic appliances. The organisation chart of the business is as follows:



Recently, the warehouse of John's business caught fire, which led to substantial losses.

- (a) Which department of John's business should be responsible for claiming insurance compensation? Explain one main role of this department in the business. (3 marks)

A business consultant advises John to improve the controlling functions of the business.

- (b) (i) What is the purpose of controlling in management? (1 mark)
- (ii) List the steps in the controlling process. (4 marks)

**END OF PAPER**



**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A**  
**Accounting Strand**  
**Sample Paper**

10:15 am – 12:45 pm (2 hours 30 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. Start each question (not part of a question) on a new page.

**This sample paper aims to illustrate the revised rubrics, instructions and paper layout, effective from the 2025 examination. The questions are adapted from past papers as follows:**

<b>Sample Paper</b>	<b>HKDSE</b>	
	<b>Year</b>	<b>Question</b>
1(a)	2017	Paper 1 Q4(a)
1(b)	2014	Paper 1 Q3(b)
2(a)	2016	2
2(b)	2017	3(a)
3(a)	2017	1(a)(b)
3(b)	2017	Paper 1 Q3(d)
4(a)	2012	Paper 1 Q1
4(b)(c)(d)	2017	3(b)(c)(d)
5(a)(b)	2016	Paper 1 Q4(a)(b)
5(c)	2014	6(b)
6	2018	4
7(a)	2014	6(a)
7(b)	2017	7(b)
8	2017	6
9	2015	8(a)(b)
10	2016	8(a)(b)

**SECTION A Answer ALL questions. (38 marks)**

1. John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

The following balances were obtained from his books as at 31 December 2016:

	\$
Capital, 1 January 2016	240 000
Bank overdraft	173 400
Furniture	204 000
Sales	796 200
Purchases	500 400
Returns inwards	1 800
Returns outwards	1 500
Discounts received	2 100
Operating expenses	507 000

**REQUIRED:**

- (a) Prepare for John's firm a trial balance as at 31 December 2016. (6 marks)
- (b) From the accounts given above, identify one example for real account and nominal account respectively. (2 marks)
- (Total: 8 marks)
2. (a) ABC Company keeps the following four ledgers only: cash book, general ledger, purchases ledger and sales ledger. Indicate the accounts to be debited and credited, and the ledgers to be recorded for transactions (i) to (v) in the table below. Write your answers for items (1) to (20) in the answer book.

Transaction		Debit entry to be recorded		Credit entry to be recorded	
		Account	Ledger	Account	Ledger
<i>e.g.</i>	<i>Equipment purchased in cash</i>	<i>Equipment</i>	<i>General ledger</i>	<i>Cash</i>	<i>Cash book</i>
(i)	Office rent paid by cheque	(1)	(2)	(3)	(4)
(ii)	Goods purchased on credit	(5)	(6)	(7)	(8)
(iii)	Bank loan acquired	(9)	(10)	(11)	(12)
(iv)	Goods returned by credit customers	(13)	(14)	(15)	(16)
(v)	Interest income accrued	(17)	(18)	(19)	(20)

(5 marks)

ABC Company acquired a production machine for \$432 000 on 1 January 2013. The expected total production hours of the machine are 8 000 hours during its useful life of four years. No residual value is expected and annual depreciation is to be provided based on the usage of the machine.

The actual annual hours used for production were as follows:

<u>Year</u>	<u>Actual production hours</u>
2013	1 800
2014	2 300
2015	2 400
2016	2 500

**REQUIRED:**

- (b) Calculate the annual depreciation expenses of the machine for 2015 and 2016. (3 marks)

(Total: 8 marks)

3. The following are some accounting principles and conventions:

- ♦ Money measurement
- ♦ Consistency
- ♦ Going concern
- ♦ Business entity
- ♦ Materiality
- ♦ Realisation

Situations:

- (i) Owner's personal assets are not recorded in the books of his business.
- (ii) In a multinational corporation, a calculator costing \$50, with an estimated useful life of 10 years, was purchased for office use. The whole amount of \$50 was recorded as an expense in the year of purchase.
- (iii) Assets are not recorded at their liquidation values in the statement of financial position when a business is not expected to liquidate in the foreseeable future.
- (iv) The expertise of the top management is not recorded in the statement of financial position.
- (v) Sales revenues are recognised when goods are delivered to and accepted by customers.

**REQUIRED:**

- (a) Referring to the above table, identify the most appropriate accounting principle or convention for each of the situations. (5 marks)

The financial year of Company A ends on 31 December. On 4 January 2017, Company A received an electricity bill for December 2016 of \$9 500. It then settled the bill on 29 January 2017.

- (b) Explain, with a relevant accounting principle or concept, in which year the electricity of \$9 500 should be recorded as an expense. (3 marks)

(Total: 8 marks)

4. (a) Explain one limitation on the use of financial statements. (2 marks)

KM Company is a manufacturer producing a single product, Y. The following information for its three types of manufacturing overheads is available. Each overhead type demonstrates different cost behaviour. The maximum annual production capacity of KM Company is 600 000 units.

Production level (units)	360 000	420 000	480 000	540 000	600 000
Manufacturing overheads:	\$	\$	\$	\$	\$
- Type P	400 000	400 000	400 000	(i)	400 000
- Type Q	180 000	210 000	(ii)	270 000	300 000
- Type R*	77 000	(iii)	101 000	113 000	125 000

\*Type R includes fixed manufacturing overheads and variable manufacturing overheads.

**REQUIRED:**

- (b) Compute the amounts for items (i) to (iii) in the above table. (3 marks)
- (c) With reference to cost behaviour, identify the type of manufacturing overheads that Type R belongs to. (1 mark)

KM Company is considering a one-off special order from a customer. It has sufficient production capacity to cope with this order.

**REQUIRED:**

- (d) With reference to cost behaviour, when KM Company decides whether to accept the order, which of the above three types of manufacturing overheads (P, Q or R) is irrelevant? Briefly explain your answer. (2 marks)
- (Total: 8 marks)

5. John runs a small supermarket. Its financial statements for the year 2015 are given below:

Income Statement for the year ended 31 December 2015	
	\$
Sales	100 000
Less: Cost of goods sold	<u>60 000</u>
Gross profit	40 000
Less: General expenses	<u>30 000</u>
Net profit	<u><u>10 000</u></u>

The balances of the capital account as at 1 January 2015 and 31 December 2015 were \$37 000 and \$30 000 respectively.

**REQUIRED:**

- (a) Calculate (to two decimal places) the gross profit ratio, the net profit ratio and the return on capital employed for the year 2015 for John's supermarket. (3 marks)
- (b) Man Kee is another small supermarket in the same district. Its gross profit ratio and net profit ratio for the year 2015 are 35% and 15% respectively. Briefly comment on the profitability of John's supermarket for the year 2015 as compared with Man Kee. (2 marks)
- (c) State one limitation of accounting ratios in financial analysis. (1 mark)
- (Total: 6 marks)

**SECTION B Answer ALL questions. (32 marks)**

6. Jay and Joe were in partnership sharing profits and losses in the ratio of 3:2, the balances of their capital accounts as at 1 January 2017 were \$229 000 and \$144 000 respectively. On the same date, Tom was admitted to the partnership with the following arrangements:
- (i) Jay, Joe and Tom would share profits and losses in the ratio of 3:3:4 and Tom would be paid a monthly salary of \$22 000 by cheque at the end of each month.
  - (ii) Goodwill was to be valued at \$80 000. All other assets were to be revalued upwards by \$120 000. The new partnership would not keep a goodwill account.
  - (iii) Interest on drawings of 5% per annum would be charged while interest on capital of 4% per annum would be calculated on the beginning balances of the capital accounts.
  - (iv) Tom had to bring in sufficient funds so that his capital account balance would amount to 40% of the total capital of the new partnership.
  - (v) The new partnership would maintain fixed capital accounts.

**REQUIRED:**

- (a) Prepare the partners' capital accounts in columnar form, showing the admission of Tom. (4 marks)

After a year of operation, the following information was extracted from the books of the new partnership for the year ended 31 December 2017:

	\$
Sales	4 002 600
Cost of goods sold	1 085 400
Operating expenses (including annual salary paid to Tom)	2 412 000
Interest expenses (including the interest on capital)	75 600
Drawings - Jay (withdrawn on 1 May 2017)	180 000
- Joe (withdrawn on 1 July 2017)	120 000

**REQUIRED:**

- (b) Prepare the appropriation account of the partnership for the year ended 31 December 2017. (6 marks)

(Total: 10 marks)

7. Peter started his business on 1 January 2012. A fire on 31 December 2013 destroyed some accounting records and inventory. The following balances as at 31 December were extracted from the remaining records:

	<b>2013</b>	<b>2012</b>
	\$	\$
Office equipment, at cost (all purchased on 1 January 2012)	180 000	180 000
Inventory	65 000	75 000
Trade receivables	80 000	90 000
Trade payables	32 000	18 000

The following information relating to the year ended 31 December 2013 was also available:

- (i) The inventory loss in the fire was ascertained at \$31 000.
- (ii) All goods were sold on credit and the average trade receivables collection period was 2 months.
- (iii) All purchases were on credit and the average trade payables turnover was 9 times.
- (iv) Advertising expenses of \$8 000, rental expenses of \$37 200 and salaries of \$144 000 were incurred in 2013. No compensation would be received for the fire loss.
- (v) Depreciation is to be provided at the annual rate of 20% using the reducing-balance method.

**REQUIRED:**

- (a) Prepare for Peter's business the income statement for the year ended 31 December 2013, showing all the necessary items including sales, purchases and inventory loss. (8 marks)
- (b) Briefly explain the meanings of normal loss and abnormal loss of inventory. Identify the type of inventory loss caused to Peter's business by the fire. (2 marks)

(Total: 10 marks)



8. Nice Company commenced business on 1 January 2016. It produces a single product, M1. The income statement for the year ended 31 December 2016 was as follows:

	\$	\$
Sales (9 600 units)		2 400 000
<u>Less: Cost of goods sold</u>		
Direct materials	300 000	
Direct labour	600 000	
Fixed production overheads	<u>930 000</u>	
	1 830 000	
Less: Closing inventory (2 400 units)	<u>366 000</u>	
	1 464 000	
Add: Under-absorbed fixed production overheads	<u>15 000</u>	<u>1 479 000</u>
Gross profit		921 000
Less: Selling and administrative overheads		
- fixed	360 000	
- variable (include sales commission only)	<u>240 000</u>	<u>600 000</u>
Net profit		<u><u>321 000</u></u>

**REQUIRED:**

- (a) Calculate the contribution margin per unit of M1. (4 marks)
- (b) Calculate the breakeven sales amount for 2016. (4 marks)

Nice Company is considering producing an advanced model 'Super-M' in 2018. If Nice Company produces both M1 and 'Super-M', the production information is estimated as follows:

	<u>M1</u>	<u>Super-M</u>
Annual production	5 000 units	7 000 units
Direct labour hour required per unit	$\frac{1}{10}$ hour	$\frac{1}{6}$ hour
Machine hour required per unit	$\frac{4}{5}$ hour	$\frac{2}{3}$ hour

Fixed production overheads of 2018 are budgeted at \$988 000, which mainly covers factory rent, machine maintenance and depreciation for machinery.

**REQUIRED:**

- (c) Calculate the predetermined fixed production overhead absorption rate (to 2 decimal places) for each unit of M1 and 'Super-M' respectively, using the following cost absorption bases:
- (i) direct labour hours
- (ii) machine hours (2 marks)
- (d) Briefly explain which cost absorption basis, direct labour hours or machine hours, would you recommend to Nice Company. (2 marks)

(Total: 12 marks)

**SECTION C Answer ONE question. (18 marks)**

9. Before the preparation of the income statement, Nancy Company Limited has drafted the trial balance as at 31 December 2014 as follows:

	Dr	Cr
	\$	\$
Purchases and sales	890 000	1 380 000
Ordinary shares of \$5 each, fully paid		1 200 000
Accumulated depreciation – office equipment, 1 January 2014		340 000
Trade receivables and trade payables	321 900	247 800
Retained profits, 1 January 2014		210 000
6% debentures		150 000
Cash at bank		42 000
Administrative expenses	345 000	
Inventory, 1 January 2014	156 000	
Office equipment	1 570 000	
Selling and distribution expenses	286 900	
	<u>3 569 800</u>	<u>3 569 800</u>

Additional information:

- (i) It is the company's policy to depreciate its non-current assets on a straight-line basis at an annual rate of 10%. Depreciation expenses and loss on disposal are classified as administrative expenses.
- (ii) On 1 October 2014, Nancy Company Limited traded in a piece of used office equipment with a cost of \$100 000 for a new model. The trade-in value was agreed at \$22 000. The old office equipment had an accumulated depreciation of \$52 500 on 1 January 2014. No accounting record had been made for the above arrangement. In respect of this trade-in, the company was required to pay \$140 000 for the new office equipment, \$5 000 for its delivery, \$1 000 for the insurance during its delivery and \$3 000 to train staff to operate the new office equipment. All these expenditures had been treated as administrative expenses for 2014.
- (iii) On 1 July 2014, \$150 000 6% debentures were issued, interest being payable half-yearly on 1 January and 1 July.
- (iv) In December 2014, goods invoiced at \$30 000 were sent to a customer on a sale-or-return basis. These had been recorded as credit sales for the year. As at 31 December 2014, 75% of these goods were accepted by the customer. The remaining 25% had been included in the closing inventory at cost.
- (v) An invoice for selling expenses of \$2 000 was received but not yet recorded in the books.
- (vi) Inventory as at 31 December 2014 had a cost of \$290 000. 20% of the inventory was slightly damaged and had a net realisable value of \$49 980.
- (vii) On 31 December 2014, the board of directors resolved to transfer \$100 000 to general reserve.

**REQUIRED:**

- (a) Prepare a statement to calculate the cost of the new office equipment in (ii) above. (3 marks)
- (b) Prepare for Nancy Company Limited the income statement for the year ended 31 December 2014 and the statement of financial position as at that date. (15 marks)

(Total: 18 marks)

10. Gary Company Limited has prepared the following statement of financial position as at 31 December 2015, the end of its first year of operation:

	\$
Office equipment	840 000
Less: Accumulated depreciation – office equipment, 31 December 2015	(210 000)
Delivery vans	480 000
Less: Accumulated depreciation – delivery vans, 31 December 2015	(10 000)
Inventory	645 000
Trade receivables [note (iv)]	490 000
Cash at bank	154 400
	<u>2 389 400</u>
	\$
Ordinary share capital	1 000 000
Retained profits	255 000
Long-term bank loan	200 000
Short-term loan	480 000
Trade payables	454 400
	<u>2 389 400</u>

Additional information:

- (i) A short-term loan of \$456 000 was obtained to purchase a delivery van costing the same amount on 1 December 2015. The loan and its interest, totalling \$480 000 have to be repaid on 1 May 2016. This total amount was mistakenly debited to the delivery vans account and credited to the short-term loan account. It is the company's policy to depreciate all non-current assets evenly over four years on a monthly basis.
- (ii) On 31 December 2015, it was discovered that some goods costing \$32 250 had been damaged and could only be sold for \$22 200 after having them repaired for \$2 600 in January 2016. No adjustment had been made in the closing inventory for the above.
- (iii) A purchase order from a customer for goods at an invoice price of \$15 000, with a mark-up of 25%, was received on 30 December 2015. The goods would be delivered to the customer on 15 January 2016. These goods were not included in the closing inventory as the order had been recorded as credit sales on 30 December 2015.

- (iv) Analysis of the trade receivables is shown as follows:

	\$
Amount due from customers [including the sales of goods in note (iii)]	503 000
Deposits received from customers	<u>(3 000)</u>
	500 000
Less: 2% allowance for doubtful debts provided according to company's policy	<u>(10 000)</u>
	<u>490 000</u>

- (v) The bank reconciliation statement as at 31 December 2015 showed that there were three unrepresented cheques totalling \$23 400 on that date. After further review, the bookkeeper discovered that one of the unrepresented cheques for \$11 800 was issued to a supplier on 5 May 2015. It is the practice of the bank not to honour cheques outstanding for more than six months.

**REQUIRED:**

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (9 marks)
- (b) Prepare for Gary Company Limited the statement of financial position as at 31 December 2015. (9 marks)

(Total: 18 marks)

**END OF PAPER**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1B**  
**Business Management Strand**  
**Sample Paper**

8:30 am – 9:30 am (1 hour)

This paper must be answered in English

**GENERAL INSTRUCTIONS**

- (1) There are TWO sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
- (2) Answer ALL questions.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start EACH question (not part of a question) on a NEW page.
- (4) The Answer Sheet for Section A and the Answer Book for Section B must be handed in separately at the end of the examination.

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**INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)**

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words 'END OF SECTION A' after the last question.
- (3) All questions carry equal marks.
- (4) ANSWER ALL QUESTIONS. You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.
- (6) No marks will be deducted for wrong answers.

This sample paper aims to illustrate the revised rubrics, instructions and paper layout, effective from the 2025 examination. The questions are adapted from past papers as follows:

**Section A**

Sample Paper	HKDSE		Topic	
	Year	Question		
1	2016	1	Business Environment	<b>Same as Paper 1A</b>
2	2015	1		
3	2018	7		
4	2016	15		
5	2016	17		
6	2017	6		
7	2017	1		
8	2016	28		
9	2016	4	Basics of Personal Financial Management	
10	2016	9		
11	2016	14		
12	2017	13		
13	2017	3		
14	2016	25		
15	2017	23		
16	2017	26		
17	2016	5	Basics of Accounting	
18	2015	10		
19	2015	18		
20	2018	23		
21	2017	5		
22	2016	29		
23	2017	19		
24	2018	29		

**Section B**

Sample Paper	HKDSE		Topic	
	Year	Question		
1	2018	1	Business environment	<b>Same as Paper 1A</b>
2a	2016	2a	Personal Financial Management	
2b	2017	2		
3a	2015	4a	Basics of Accounting	
3b	2015	2b		

**SECTION A Choose the best answer for each question. (48 marks)**

1. Which of the following is/are the characteristic(s) of multinational corporations located in Hong Kong?
- (1) Their operations also take place outside Hong Kong.
  - (2) They are listed on the stock exchange of Hong Kong.
  - (3) They have more than 100 employees.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
2. A limited partner \_\_\_\_\_.
- A. is a general partner
  - B. is not liable for the debts of a partnership
  - C. does not need to invest money into a partnership
  - D. does not take part in the management of a partnership
3. Ethical behaviour in business will \_\_\_\_\_.
- (1) enhance the public image of a business
  - (2) increase the operating costs of a business in the long run
  - (3) enable a business to be subject to a lower profits tax rate
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
4. Which of the following companies is/are socially responsible?
- (1) A power company which develops new technology to help reduce gas emissions.
  - (2) A printing company which accepts many orders from social welfare organisations.
  - (3) A trading company which encourages employees to participate in voluntary work to serve the community.
- A. (1) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
5. Which of the following is a benefit brought about by the “Closer Economic Partnership Arrangement” (CEPA) for the businesses in Hong Kong?
- A. Companies owned by Hong Kong residents are not taxed on the Mainland.
  - B. There is free flow of capital between Hong Kong and the Mainland.
  - C. Tariffs are not levied on goods originating in Hong Kong exported to the Mainland.
  - D. Hong Kong is allowed to enter the World Trade Organization as an independent economy.

6. Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?
- (1) Hong Kong is the largest trading partner of the Mainland.
  - (2) In terms of the value of goods, the Mainland is the largest re-export destination of Hong Kong.
  - (3) Many goods originating in Hong Kong exported to the Mainland are tariff-free.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
7. Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?
- (1) It settles trade disputes in the Asia-Pacific region.
  - (2) It promotes sustainable economic growth in the Asia-Pacific region.
  - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. A \_\_\_\_\_ is easier to set up and enjoys a relatively low tax rate in Hong Kong. All owners are liable for the business decisions of one another in this entity.
- A. partnership
  - B. sole proprietorship
  - C. private limited company
  - D. public limited company
9. Anna has just retired at the age 65 and has received a substantial amount from a provident fund. She plans to invest the money to get some returns but is not willing to take high risks. Which of the following financial instruments is the **least** suitable for her?
- A. term deposits
  - B. saving deposits
  - C. iBond
  - D. shares
10. A credit card user
- (1) can buy goods and services overseas with a credit card issued in Hong Kong.
  - (2) can settle the whole outstanding balance of the statement by the due date in order to avoid interest charges.
  - (3) can enjoy a lower interest rate to settle the overdue credit card balance than for a personal loan.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

11. A bank offers a saving plan which requires an initial deposit of \$100 000. The plan generates the following cash flows at the end of subsequent years:

	\$
Year 1	20 000
Year 2	35 000
Year 3	55 000

Given a discount rate of 5% p.a., what is the net present value of the saving plan?

- A. \$10 000  
B. \$9523.81  
C. \$4761.90  
D. -\$1695.28
12. If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?
- (1) Effective rate of return reflects the actual return on an investment.  
(2) Effective rate of return will be higher if the amount of the principal increases.  
(3) Effective rate of return will be higher if the frequency of compounding increases.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
13. Which of the following statements about the Hang Seng Index is **not** correct?
- A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.  
B. It measures the performance of the largest and most liquid companies listed in Hong Kong.  
C. It includes 50 stocks listed on the GEM.  
D. It serves as a benchmark of the general performance of the Hong Kong stock market.
14. Simon is a self-employed fashion designer. He
- (1) has the right not to enrol into an Mandatory Provident Fund (MPF) scheme.  
(2) has the right to make voluntary contributions to the MPF scheme.  
(3) has the right to withdraw his accrued benefits from the MPF scheme before reaching the age 65 if he migrates to another country.
- A. (1) only  
B. (2) only  
C. (3) only  
D. (2) and (3) only
15. Which of the following are the benefits for a borrower of maintaining a good personal credit record?
- (1) lower interest rate on personal loan  
(2) higher credit limit  
(3) better terms when opening a term deposit account
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)



16. Which of the following will affect the share price of a listed company selling motorcars?
- (1) fuel price
  - (2) interest rate
  - (3) dividend policy of the company
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
17. Sunny, who maintains a good credit record, is a customer of Mary's business. For the year ended 31 December 2015, Mary sold goods for \$8 000 on credit to Sunny. Sunny fully settled the debt in January 2016. According to the \_\_\_\_\_ (1) \_\_\_\_\_, Mary should record this transaction as sales for the year \_\_\_\_\_ (2) \_\_\_\_\_.
- |    | <u>(1)</u>               | <u>(2)</u> |
|----|--------------------------|------------|
| A. | accrual concept          | 2015       |
| B. | accrual concept          | 2016       |
| C. | going concern assumption | 2015       |
| D. | going concern assumption | 2016       |
18. Which of the following is not a nominal account?
- A. salaries account
  - B. purchases account
  - C. returns inwards account
  - D. cash at bank account
19. Which of the following descriptions of cash discounts offered to customers are correct?
- (1) They are expenses.
  - (2) They must be recorded in the books.
  - (3) They are used to encourage customers to purchase in cash.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
20. Which of the following is **not** a function of accounting?
- A. summarising business transactions
  - B. monitoring the performance of the accounting staff
  - C. communicating the performance of the business to different stakeholders
  - D. classifying business transactions

21. In the accounting cycle, which of the following steps comes immediately after the preparation of a trial balance?
- A. preparing financial statements
  - B. making period-end adjustments
  - C. posting entries to the ledgers
  - D. recording transactions in the books of original entry

22. The following account balances as at 31 December 2015 were extracted from the books of a firm:

	Dr	Cr
	\$	\$
Purchases	75 000	
Returns inwards and returns outwards	5 000	3 000
Discounts allowed and discounts received	3 500	2 000
Inventory as at 1 January 2015	15 000	
Electricity	10 000	
Wages and salaries	36 500	

Given that the inventory as at 31 December 2015 was \$27 000, what was the cost of goods sold for the year ended 31 December 2015?

- A. \$54 500
  - B. \$58 000
  - C. \$60 000
  - D. \$63 000
23. Mr Wong set up a firm on 1 January 2017. He introduced his motor van of \$40 000 into the firm. The firm borrowed \$200 000 from Mr Wong's relatives to purchase office equipment and \$100 000 from bank for the business operation.

What are the amounts of the firm's assets, liabilities and capital on 1 January 2017?

	<u>Assets</u>	<u>Liabilities</u>	<u>Capital</u>
	\$	\$	\$
A.	240 000	200 000	40 000
B.	40 000	300 000	340 000
C.	340 000	100 000	240 000
D.	340 000	300 000	40 000

24. Which of the following about an income statement is **not** correct?
- A. Information is mostly quantitative.
  - B. Information mainly reflects past events.
  - C. Its preparation involves professional judgements.
  - D. Its preparation is based on cash receipts and cash payments only.

**END OF SECTION A**

**SECTION B Answer ALL questions. (24 marks)**

1. Nick Limited is a private limited company, manufacturing and selling electrical appliances locally. Facing international competition, the company is planning to set up an online store to sell worldwide. To lower costs and increase sales, the company is analysing the effects of globalisation in order to formulate new business strategies.
- (a) Explain one technological factor and one economic factor that Nick Limited should consider when planning to set up the online store. (4 marks)
- (b) Suggest two strategies to Nick Limited that may lower its production cost under globalisation. (4 marks)
2. (a) Explain how the share price of a property development company in Hong Kong changes in a booming local economy. (2 marks)
- (b) Mary has just retired and received her retirement fund. A financial planner advised her to invest the retirement fund in various financial instruments.
- (i) Explain two of Mary's financial needs after her retirement. (4 marks)
- (ii) As an investor, what responsibilities does Mary have? List any two. (2 marks)
3. Peter is the sole owner of a garment firm. The following balances as at 31 December 2014 were obtained from the firm:

	\$
Bank loan (repayable in September 2015)	430 000
Capital, 1 January 2014	?
Cash at bank	398 000
Fixed deposit (6-month)	180 000
Inventory	210 000
Motor vehicles	986 000
Net profit for the year	82 000
Trade payables	383 000
Trade receivables	320 000

- (a) Prepare a statement of financial position for Peter's business as at 31 December 2014. (5 marks)

The firm bought a motor van for business use and paid \$175 000 from its bank account. The list price of the motor van was \$200 000 and a discount of \$25 000 was given by the vendor.

- (b) State the amount to be recorded for the motor van in the books of the firm. Explain your answer with a relevant accounting principle or concept. (3 marks)

**END OF PAPER**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B**  
**Business Management Strand**  
**Sample Paper**

10:15 am – 12:45 pm (2 hours 30 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. Start each question (not part of a question) on a new page.

**This sample paper aims to illustrate the revised rubrics, instructions and paper layout, effective from the 2025 examination. The questions are adapted from past papers as follows:**

Sample Paper	HKDSE	
	Year	Question
1	2018	Paper 1 Q2(a)(b)
2(a)	2017	2
2(b)	2016	5(a)
3	2017	3
4(a)	2016	Paper 1 Q.4(c)(i)
4(b)	2016	Paper 1 Q.4(c)(ii)
5	2014	4
6(a)	2016	2
6(b)	2016	3
7(a)	2015	Paper 1 Q1(a)
7(b)(c)(d)	2017	5(a)(c)(d)
8(a)	2018	Paper 1 Q4(c)
8(b)(c)(d)(e)	2017	6(a)(c)(d)(e)
9	2017	7
10	2016	9

**SECTION A Answer ALL questions. (38 marks)**

1. (a) Apart from the number of employees, state two other characteristics of small and medium enterprises. (2 marks)
- (b) Explain two contributions of entrepreneurship to the development of business. (4 marks)
  
2. (a) Explain any two components of the '5Cs' of the credit standard that a bank considers when deciding whether to grant credit to a borrower. (4 marks)
- (b) Budgeting is an important financial function in a company. Explain two purposes of budgeting. (4 marks)
  
3. Outline three objectives of providing training to the drivers of a transportation company. (6 marks)
  
4. John runs a small supermarket. A business consultant advises John to adopt Management by Objectives in his supermarket.
  - (a) How are objectives set under Management by Objectives in John's supermarket? (2 marks)
  - (b) Explain two advantages of adopting Management by Objectives in a business. (4 marks)
  
5. Briefly describe three sampling techniques that can be used in marketing research. (6 marks)
  
6. (a) With reference to Herzberg's Dual-factor Theory, suggest two factors that can lead to job satisfaction for designers in a fashion company. Illustrate your answer with an example of each. (4 marks)
- (b) Explain one benefit to a company of adopting a direct distribution channel for its products. (2 marks)

**SECTION B Answer ALL questions. (32 marks)**

7. Marco is the owner in the form of a sole proprietorship of an eyewear retail chain, selling different brands of glasses. Currently, the chain has 11 retail stores all over Hong Kong, and has 30 administrative staff and 60 salespersons. The goal of the retail chain is as follows:

‘To increase the sales revenues substantially in the near future.’

To grasp the opportunity offered by market expansion, Marco wants to open more branches in the coming five years. He is considering various ways to finance his expansion plan.

In a meeting, Daisy, the Marketing Manager reported, ‘According to research, the market demand for eyewear is increasing. Customers are more willing to spend money on trendy and high class eyewear. We have already put more resources into advertising in the past three months. I believe that this marketing strategy has helped bring in new customers.’

David, the Finance Manager agreed, ‘With increased advertising, our sales have increased substantially.’

John, the Human Resources Manager responded, ‘I am pleased to know that the sales performance has improved. However, our recent staff appraisals show that many salespersons are not satisfied with their jobs. In fact, their salary level is higher than the market rate. We have also offered long-term employment contracts and comprehensive benefits to them. We may need to find other ways to improve their morale.’

Marco asked, ‘Besides enhancing salespersons’ morale, what else can we do to further increase sales?’

Daisy replied, ‘Many companies have started implementing a customer relationship management (CRM) system to help increase sales to existing customers. Shall we also introduce a CRM system to achieve this goal?’

John added, ‘If we decide to adopt a CRM system, then we have to recruit a manager to lead this new project. We may consider appointing the customer relationship manager through internal promotion.’

- (a) Refer to the goal of the retail chain stated above, explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)
- (b) List two types of methods that Marco could use to finance his five-year expansion plan. Give one disadvantage of each of them. (4 marks)
- (c) Give two reasons why customer relationship management could help increase sales to existing customers. (4 marks)
- (d) Outline two limitations of appointing a customer relationship manager through internal promotion. (4 marks)

(Total: 16 marks)

8. King's Restaurant, an international catering chain, has been operating in Hong Kong for a few decades. The market position of King's Restaurant is to provide customers with innovative catering services at an affordable price. Its sales and profits have been growing steadily. The General Manager, Peter, is a leader who is willing to accept subordinates' opinions and involve them in the decision-making process.

Recently, the chain has been troubled by complaints about its deteriorating service quality.

In a meeting, May, the Marketing Manager said, 'We are facing keen competition in the catering industry, so it is important to maintain our service quality. However, we have received complaints from customers that the dining environment is unpleasant and some waiters are rude. Sometimes customers need to wait for a long time to be served.'

The Finance Manager, Simon, responded, 'Our revenue is growing at a decreasing rate, and improving our service quality will certainly boost sales.'

The Information Technology Manager, Danny, suggested, 'Some restaurants in other countries have started using robots to take orders and deliver dishes to customers. We should conduct a feasibility study on the introduction of this technology.'

May said, 'I agree with adopting the robotic system as it can provide innovative service which matches our market position. We could do market research to explore whether customers would accept robot service in general. I suggest sending questionnaires to all customers in our membership scheme to collect their views on a robotic system.'

Peter, queried the reliability of the information collected from questionnaires. He wanted to examine the project's feasibility from the financial perspective.

After the meeting, Simon estimated that the initial outlay for the robotic system would be \$4 000 000, with a project life of 3 years. The cost of capital would be 6%. Taking into consideration the annual expenses incurred and savings in labour costs, the net cash flow generated by the robotic system would be \$1 420 000 per year.

- (a) Explain two disadvantages of the leadership style adopted by Peter. (4 marks)
- (b) With reference to any two characteristics of service, explain how King's Restaurant can solve the problems with its service quality. (4 marks)
- (c) Based on Simon's financial estimates,
- (i) calculate the payback period of the robotic system (round to 2 decimal places). (2 marks)
- (ii) calculate the net present value of the robotic system (round to an integer). (2 marks)
- (d) Based on the net present value calculated in (c)(ii) above, explain whether the robotic system project should be accepted. (2 marks)
- (e) Other than the payback period method and the net present value method, suggest and explain one other capital investment appraisal method for evaluating the robotic system project. (2 marks)

(Total: 16 marks)



**SECTION C Answer ONE question. (18 marks)**

9. An airline company is considering enhancing the fringe benefits of its employees. In order to investigate the financial affordability of this measure, the company uses accounting ratios to evaluate its performance.

- (a) Describe the aspects of the airline company's performance that could be evaluated using accounting ratios. (8 marks)
- (b) Illustrate with examples the purposes of providing fringe benefits to the employees of an airline company. (10 marks)

(Total: 18 marks)

10. A smartphone manufacturer has developed a new mobile phone model and is considering setting a price for the new mobile phone. It is also planning to analyse the purchase decision-making process of its customers in order to launch the product successfully.

- (a) Describe the factors to be considered by the smartphone manufacturer when setting the price for its new mobile phone. (8 marks)
- (b) With reference to the purchase decision-making process, explain the steps customers would go through for the purchase of a new mobile phone. (10 marks)

(Total: 18 marks)

**END OF PAPER**